

United States Department of Health and Human Services



Accountability Report: Fiscal Year 1997

DEPARTMENT OF HEALTH AND HUMAN SERVICES WEB SITES

Office of the Secretary (OS)	www.hhs.gov
Administration for Children and Families (ACF)	www.acf.dhhs.gov
Administration on Aging (AoA)	www.aoa.dhhs.gov
Agency for Health Care Policy and Research (AHCPR)	www.ahcpr.gov
Agency for Toxic Substances And Disease Registry (ATSDR)	atsdr1.atsdr.cdc.gov:8080
Centers for Disease Control and Prevention (CDC)	www.cdc.gov
Food and Drug Administration (FDA)	www.fda.gov
Health Care Financing Administration (HCFA)	www.hcfa.gov
Health Resources and Services Administration (HRSA)	www.hrsa.dhhs.gov
Indian Health Service (IHS)	www.tuscon.ihs.gov
National Institutes of Health (NIH)	www.nih.gov
Program Support Center (PSC)	www.hhs.gov/psc
Substance Abuse and Mental Health Services Administration (SAMHSA)	www.samhsa.gov

United States Department of Health and Human Services



Accountability Report: Fiscal Year 1997

Message From The Secretary

April 1998

I am pleased to present the U.S. Department of Health and Human Services (HHS) ***Accountability Report*** for Fiscal Year 1997. In this report, we give a full accounting of how we spent the almost \$340 billion entrusted to us. We discuss our programmatic accomplishments and improvements in administrative and managerial areas, the results of our Departmentwide financial statement audit and our plans to resolve cited weaknesses, and the challenges that face us as we look to the new millennium.



Secretary Shalala

FY 1997 was exciting and eventful. We saw advances in medical research, proposed a plan to Congress aimed at protecting Americans' personal medical records, launched the world's largest source of published medical information on the World Wide Web, issued rules on informative labeling for vitamins and other nutritional supplements, helped to coordinate responses to public health issues (such as *pfiesteria piscicida* fish kills on the U.S. eastern seaboard), launched campaigns to increase physical activity among adults and children for lifelong health, and introduced legislation to reward States for real improvements in child support enforcement programs.

Yet there are many challenges remaining for our nation in the area of health care. While we are the richest nation on earth, we still have an estimated 41 to 44 million Americans who are not covered by health insurance. Approximately 44 million American adults and 4 million older children experience some form of mental health disorder each year. We face a tremendous challenge in the area of health care fraud where Medicare and Medicaid dollars are being siphoned out of the system by dishonest individuals. Our corrective actions to deal with these problems are discussed in detail in this report. The year 2000 is approaching, and we are working to ensure that our information systems and consumers' health care devices will remain operable and dependable. The incidence rates of some chronic diseases (such as cancer and diabetes) continue to rise, even though healthy diets and active lifestyles could have prevented many of those illnesses and the billions of dollars associated with their treatment.

Our efforts to promote healthy lifestyles and eating habits and to reduce tobacco use will continue, because prevention is the most cost-effective and humane way to approach health care. It's smarter and cheaper to post warning signs about a dangerous curve in the road than to build and staff an on-site emergency facility to treat the victims of the crashes. We are posting signs for healthy living wherever we can, including the information superhighway.

Because of the rising costs in health care treatment and the increasing populations in the Medicare, Medicaid, and family services programs, HHS has grown in thirty years from a small Federal agency to one of the four largest organizations in the Federal Government. We administer more grants than all other Federal agencies combined. An organization of this size must be responsibly and efficiently managed in order to effectively carry out its programmatic aims in an environment of ever-evolving technology and increasing accountability. Therefore, we are reporting on a variety of managerial issues, particularly in the fields of finance, information systems, and grants management.

I am pleased that the Congress and the Office of Management and Budget are working to streamline the management reports that are required of Federal Departments. A very positive result of this work is that I have been provided the opportunity to satisfy reporting required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) in this Accountability Report. We have identified nine management control material weaknesses (as defined by FMFIA) at the end of FY 1997. This report contains information that fulfills FMFIA reporting requirements, and I hereby provide reasonable assurance that taken as a whole:

1. HHS is in compliance with the management control and financial systems requirements of the FMFIA; and
2. The resources entrusted to the Department are protected from fraud, abuse and mismanagement, though we have noted our concerns with the Medicare program error rate in this Accountability Report.

I hope you find this report useful and informative, and I look forward to continuing to serve the American public.



Donna E. Shalala

Message From The Chief Financial Officer

April 1998

As the Chief Financial Officer of the U.S. Department of Health and Human Services (HHS), I am pleased to present the FY 1997 HHS Accountability Report. This is our first report as an official member of the Accountability Report Pilot Project.



CFO John J. Callahan

Readers will find this document to be a useful, comprehensive report on HHS program activities and achievements, as well as HHS financial management status and accomplishments. We have worked to make our financial report understandable and interesting to readers, so that taxpayers can understand our complex organization, our important impact on the Federal budget, and the value of the benefits that citizens derive from our services. Providing that information, interpretation, and analysis to taxpayers is one of the many important functions of the Office of the Chief Financial Officer.

I am extremely pleased to report that our auditors have rendered a qualified opinion on our FY 1997 financial statements. This is a marked improvement over the disclaimer of opinion rendered on our FY 1996 statements, and represents the hard work of many staff in HHS financial management and in the Office of the Inspector General. Improvement in the Departmentwide financial statement was vital this year, not only to HHS management, but also to the Governmentwide audited financial statement effort which recently issued its first report covering FY 1997. HHS is one of the 'big four' agencies whose opinion has a significant impact on the Governmentwide audit opinion.

In FY 1997, several scope limitations from the prior year were resolved, and progress was also made in the material weaknesses and the reportable condition cited in FY 1996. However, our auditors have also cited two new qualifications to the financial statements, one new material weakness and two new reportable conditions. All of these issues are addressed and explained in this report.

I wish to report that the estimated range for the error rate paid in the Medicare fee-for-service program was slightly less than FY 1996. Although the audit report makes clear that the improper payments could range from inadvertent mistakes to outright fraud and abuse, we believe that any fraud in the system is too much, and we will do everything to minimize improper payments. Even before the 1996 audit was released, we had begun to attack improper billing practices. We remain committed to stopping fraud and abuse through our corrective action plan and other efforts.

While this report presents a summary of our many programmatic and financial accomplishments, we are equally as candid about the many challenges facing the Department in the coming year. From the implementation of new health care programs for children to the implementation of new accounting standards, our plates are certainly full. But we will continue to work to expand and improve our services, both on the "front line" and in the "back room."

It is an honor to serve you.

A handwritten signature in black ink that reads "John J. Callahan". The signature is fluid and cursive, with the first name "John" being more prominent than the last name "Callahan".

John J. Callahan

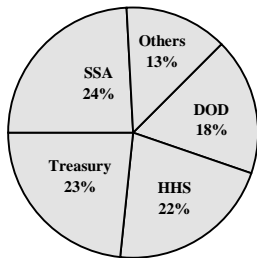
Financial Management Highlights At-a-Glance

1997 Budget:

HHS Budget as Compared to Total Federal: 21.5%

HHS FY 1997 Net Outlays: \$339,493 Million

Federal FY 1997 Outlays by Agency



Source: President's FY 1998 Budget.
Figures are FY 1997 estimates.
(Treasury includes interest on Federal debt.)

The Departmentwide Financial Statement Audit:

FY 1997 Audit Opinion: Qualified

(Improved from FY 1996 Disclaimer)

FY 1997 Qualifications/Scope Limitations: 5

(Improved from 7 in FY 1996)

Auditor's Report on Internal Controls:

FY 1997 Material Weaknesses: 5

(5 were cited in FY 1996)

FY 1997 Reportable Conditions: 3

(Increased from 1 in FY 1996)

Report on Compliance with Laws and Regulations:

FFMIA Instances of Non-Compliance:

- Lack of an efficient and timely statement preparation system.
- Lack of systems to capture expenditures at the Medicare contractor level.
- Inadequate EDP controls at HCFA central office, Medicare contractors and central personnel and payroll system.

Other:

Medicare's fee-for-service program has material claims payments that are not in compliance with applicable laws and regulations.

FMFIA:

Pending Material Weaknesses at end of FY 1997: 9

Material Weaknesses Corrected in FY 1997: 4

Prompt Payment:

FY 1997 Rate: 89.7% (Improved from 89% in FY 1996)

Debt Collection:

\$2.9 billion in Net Receivables (1.3% of HHS assets)

Collected over \$11 billion in FY 1997.

Referred 2,000 debts totalling \$59.4 million to private collection agencies.

Civil Monetary Penalties:

Assessments: \$185.9 Million

Net Receivables: \$155.5 Million

Electronic Funds Transfer (EFT):

100% of PMS Payments to Grantees made via EFT

98% of PSC salary payments made via EFT

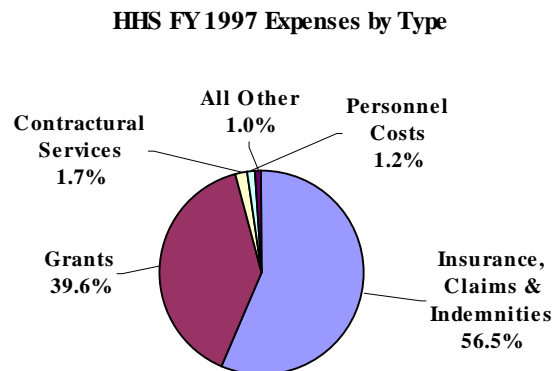
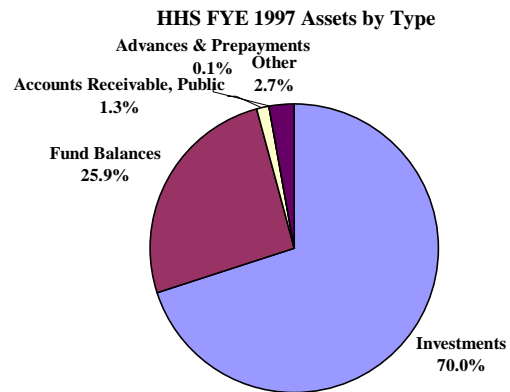


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